ISSN: 2321-8819 (Online) 2348-7186 (Print) Impact Factor: 1.498 Vol. 7, Issue 11, November, 2019

The impact of access to finance in boosting agricultural performance of small and medium farmers: Literature review

Abubakar Mayaki[1], Prof. Madya Dr. Kadzrina binti Abdul Kadir[2] and Emy Ezura A. Jalil[3]

[1]High Court of Justice, Minna Niger State of Nigeria

Ndarubu2011@gmail.com

[2]School of Business Management, UUM College of Business

Kadzrina@uum.edu.my

[3]School of Technology Management and Logistics, UUM College of Business

ezura@uum.edu.my

Abstract: The study proposes a model that shows the moderating effect of managerial competency on the relationship between access to finance and agricultural performance. After a critical review of the relevant literature, the proposed model was developed. From the model we argue that access to finance has a direct impact on agricultural performance, but the impact will be stronger when managerial competency is put into consideration by the small and medium farmers. Farmers who possess the needed managerial competency have the opportunity to achieve a competitive edge over their competitors.

Key words: Access to finance, agricultural performance, small and medium farmers.

Introduction

Access to finance can be defined as lack of financial and non-financial barriers in accessing financial resources and services ((Ganbold, 2008)). In other words, it is the extent to which financial resources and services can be accessed by users at a reasonable cost of capital. Access to finance is measured from two different viewpoints: the supply (providers) and demand (users) perspectives. However, this study focuses on demand (users) perspective as the study intend to establish the link between small and medium farmers accessibility to finance and agricultural performance. According to Kumar (2005) access to financial resources is measured by three major dimensions or elements: institutional, functional and product. The institutional dimension measures the degree of modern financial services, objective efficacy, condition and terms for the provision of financial services, and close observation; the functional dimension measures the capacity of supply side or the suppliers to deliver a financial service; and the product dimension measures the level and the availability of financial services.

Developing countries have been facing the problem of access to finance in the agricultural sector, as such policy makers are much concerned about it (Ammani, 2012; Ugwumba & Omojola, 2013). Several studies revealed that availability of finance affects performance in agriculture (Ammani, 2012; Risilia, Pagria, Tabaku, & Kadiu, 2013), and that the accessibility of finance is one of the most important prerequisite factors in the agricultural sector (Ayaz & Hussain, 2011).

Moreover, in developed nations access to finance is not among the constraints faced by firms or organizations in boosting the performance of the organizations. Several studies reviewed show that managers of organizations are faced with the challenge of managing slack resources ((Kim & Bettis, 2014; Lecuona & Reitzig, 2014; Vanacker, Collewaert, & Zahra, 2017). However, slack resources is the accumulation of resources in an organization in excess of what is needed to sustain the routine operations of such organization (Vanacker et al., 2017). Most of the articles reviewed for the developed nations focused on the influence of the slack resources or cash on the performance of firm or organization (Kim & Bettis, 2014; Paeleman & Vanacker, 2015; Vanacker et al., 2017). For example, Paeleman & Vanacker (2015) examine the influence of slack resources (financial and human) on firm performance and survival. A sample size of 4,715 European information and communication technology ICT firm was used, and the result of the study revealed that neither the abundance of slack resources in both financial and human nor resources constraint in both financial and human are optimal for firm performance and survival. However, the authors further stated that firms with a slack financial resource and a constraint in human resources perform better without a decrease in survival rate and prospects. Therefore, this study focuses on the access to finance by small and medium scale farmers on the sub-Sahara Africa. That is, the impact access to finance have on agricultural performance.

Empirical evidence reveals that access to finance and agricultural performance have been examined (Adeola & Ikpesu, 2016; Adjognon, Liverpool-Tasie, & Reardon, 2017; Ahmad, Jan, Ullah, &

Pervez, 2015). However, some of the findings differ (Adeola & Ikpesu, 2016). Moreover, some of the findings found a positive significant relationship between access to finance and agricultural performance (Ahmad et al., 2015; Chandio, Magsi, Rehman, Ghulam, & Sahito, 2017; Roberts, Otieno, & Nyikal, 2017; Solomon, Juliana, & Antonia, 2016). While some revealed no significant relationship (Chisasa & Makina, 2015; Khandker & Koolwal, 2015; Noonari, Wagan, Memon, Burirro, & Bijarani, 2016). However, most of the studies focused on loan repayment methods, credit constraints and institutional loans. While this study intends to look at the total impact of finance to agricultural performance of the small and medium farmers.

According to resource-based theory which is more concerned about how organization use its resources and capabilities within it to develop a competitive advantage over its competitors (Pradabwong, Braziotis, Tannock, & Pawar, 2017), However, finance has played a very important role in boosting agricultural performance of several farmers (Isoto, Sam, & Kraybill, 2016; Anjani Kumar, Mishra, Saroj, & Joshi, 2017; Solomon et al., 2016). In other words, we are of the view that, this theory assists in explaining the relationship between access to finance and agricultural performance, therefore we establish that access to finance has a direct relationship with agricultural performance. The objective of this paper is to establish the influence of access to finance on agricultural performance of the small and medium farmers. Relevant literature will be reviewed on, access to finance and agricultural performance in order to formulate the hypothesis which shows the relationship. A framework showing the relationship will be presented and lastly the implication of the framework will be discussed.

Literature Review

Access to Finance

Access to finance can be defined as lack of financial and non-financial barriers in accessing financial resources and services (Ganbold, 2008). In other words, it is the extent to which financial resources and services can be accessed by users at a reasonable cost of capital. According to Peachy and Roe (2006) access to finance enhance economic growth in emerging and developing economies. However, it is also important in advanced economies, where it significantly promotes the social inclusion of some group of the population. It empowers the people, give them the privilege to save and invest, to insure their homes or take a loan and in many cases to reduces poverty

Access to finance is measured from two different viewpoints: the supply (providers) and demand (users) perspectives. According to (Kumar, 2005) access to finance is measured by three major dimensions or elements: institutional, functional and product. The institutional dimension measures the degree of modern financial services, objective efficacy, condition and terms for the provision of financial services, and close observation; the functional dimension measures the capacity of supply side or the suppliers to deliver a financial service; and the product dimension measures the level and the availability of financial services.

Access to finance is very vital for the sustainability of the agricultural sector in any country and for meaningful development to be achieved (Ololade & Olagunju, 2013). Ololade & Olagunju (2013) also stressed that access to finance by small and medium farmers have also been established to be an influential tool against poverty reduction and rural growth. Small and medium famers are predominantly in need of finance because of the periodic pattern of their farming activities and the kind of risk they are faced with during the farming season. Access to finance is very important as it enables farmers to obtain the required inputs needed in increasing and expanding agricultural output (Adeola & Ikpesu, 2016).

According to Martey, Wiredu, Etwire and Kuwornu (2019) access to finance enables the small and medium farmers obtain farming inputs on time and make use of it efficiently which in turn enhances maximum production. As such this as shown that access to financial resources by the small and medium farmers has a positive effect on agricultural production. The study further stressed that the agricultural intervention programmes should always target the small poor farmers.

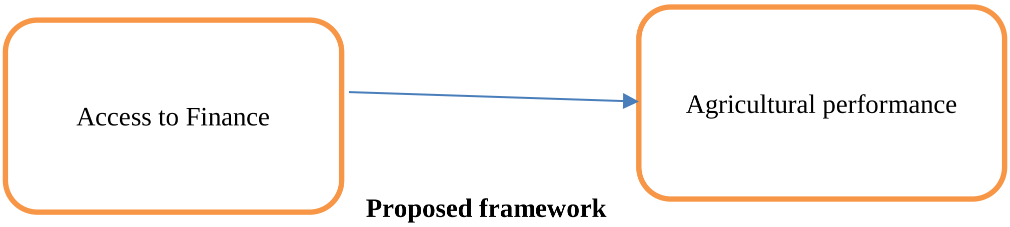
Researchers have investigated the relationship between access to finance and agricultural performance. Some studies proved a positive a relationship between access to finance and agricultural performance (Ahmad et al., 2015; Chandio, Yuansheng, Sahito, & Larik, 2016; Martey et al., 2019). While some studies could not find a positive relationship between access to finance and agricultural performance (Chisasa & Makina, 2015; Noonari, Wagan, Memon, Burirro & Birjarani, 2016). The inconsistencies in the literature indicates that there is still room for further investigation on the relationship between access to finance and agricultural performance. Therefore, we hypothesis that

Hypothesis: There is a positive relationship between access to finance and agricultural performance

Access to finance and agricultural performance

Agriculture is central for the global economic growth of the world, and in 2014 it contributed to the one-third of the global gross domestic product (GDP). Previous research demonstrated that access to finance by the small and medium farmers in the agricultural businesses increases production and improve quality, it grows the agricultural sector sustainably, transforms and improve the quality of lives (Isoto et al., 2016; Martey et al., 2019). In other words, businesses and small and medium farmers who have access to finance stand a chance witness a boost in their farming businesses, increase in profit, ease of job task due to increase in number of labor that work in the farm, and are able to purchase farming inputs with ease without any financial constraint.

Figure 1



Proposed framework

As was stated earlier the main objective of this paper is to present a framework that illustrates the relationship that exists between access to finance and agricultural performance. The framework was developed after a critical review of literature. The proposed framework indicates that there is positive relationship between access to finance and agricultural performance.

4. Conclusion

The study reviewed past literature and presents a framework showing the relationship between access to finance and agricultural performance. Based on the available literature we can deduce that access to finance is antecedent on agricultural performance. This depicts that agricultural performance will be strengthened when the farmers have access to financial resources. Hence it has become paramount for the agricultural financial institutions to focus on small and medium farmers as they are the ones who are at the disadvantage of the financial institutions. As such an increase in financial grants to them will enhance agricultural productivity, boost their farm business, enabling them to compete competitively, sale their farm produces conveniently and improve the quality of their life. For farmers to be able to achieve this, they must have adequate access to financial resources.

References

Adeola, O., & Ikpesu, F. (2016). An empirical investigation of the impact of bank lending on agricultural output in Nigeria : a ... an empirical investigation of the impact of in Nigeria : a Vector autoregressive (VAR) approach. In *Proceedings of the Australia-Middle East Conference on Business and Social Sciences* (pp. 1–13).

Adjognon, S. G., Liverpool-Tasie, L. S. O., & Reardon, T. A. (2017). Agricultural input credit in Sub-Saharan Africa: Telling myth from facts. *Food Policy*, *67*, 93–105. https://doi.org/10.1016/j.foodpol.2016.09.014

Ahmad, N., Jan, I., Ullah, S., & Pervez, S. (2015). Impact of agricultural credit on wheat productivity in District Jhang, Pakistan. *Sarhad Journal of Agriculture*, *31*(1), 65–69. https://doi.org/10.1002/em

Ammani, A. A. (2012). An investigation into the relationship between agricultural production and formal credit supply in Nigeria. *International Journal of Agriculture and Forestry*, *2*(1), 46–52. https://doi.org/10.5923/j.ijaf.20120201.08

Ayaz, S., & Hussain, Z. (2011). Impact of institutional credit on production efficiency of farming sector: A case study of District Faisalabad. *Pakistan Economics and Social Review*, *49*(2), 149–162.

Chandio, A. A., Magsi, H., Rehman, A., Ghulam, J., & Sahito, J. G. M. (2017). Types , sources and importance of agricultural credits in Pakistan. *Journal of Applied Environmental and Biological Sciences*, *7*(3), 144–149.

Chandio, A. A., Yuansheng, J., Sahito, J. G. M., & Larik, S. A. (2016). Impact of formal credit on agricultural output: Evidence from Pakistan. *African Journal of Business Management*, *10*(8), 162–168. Retrieved from http://www.academicjournals.org/AJBM

Chisasa, J., & Makina, D. (2015). Bank credit and agricultural output in South Africa: Cointegration, short run dynamics and causality. *Journal of Applied Business Research*, *31*(2), 489–500.

Ganbold, B. (2008). Improving access to finance for SME: International good experiences and lessons for Mongolia. *Institute of Developing Economies*, *438*, 2–69.

Isoto, R. E., Sam, A., & Kraybill, D. S. (2016). Uninsured health shocks and agricultural productivity among rural households: The mitigating role of micro-credit. *Journal of Development Studies*, *53*(12), 1–17. https://doi.org/10.1080/00220388.2016.1262027

Khandker, S. R., & Koolwal, G. B. (2015). How has microcredit supported agriculture? Evidence using panel data from Bangladesh. *Agricultural Economics (United Kingdom)*, *47*(2), 157–168. https://doi.org/10.1111/agec.12185

Kim, C., & Bettis, R. A. (2014). Cash is surprisingly valuable as a strategic asset. *Strategic Management Journal*, *35*(13), 2053–2063. https://doi.org/10.1002/smj.2205

Kumar, A. (2005). Measuring financial access through users' surveys core concepts, questions and indicators. *Washington DC and London*, *14*, 1–54.

Kumar, Anjani, Mishra, A. K., Saroj, S., & Joshi, P. K. (2017). Institutional versus non-institutional credit to agricultural households in India: Evidence on impact from a national farmers' survey. *Economic Systems*, *41*(3), 420–432. https://doi.org/10.1016/j.ecosys.2016.10.005

Lecuona, J. R., & Reitzig, M. (2014). Knowledge worth having in "EXCESS": The value of tacit and firm-specific human resource slack. *Strategic Management Journal*, *35*, 954–973. https://doi.org/10.1002/smj

Martey, E., Wiredu, A. N., Etwire, P. M., & Kuwornu, J. K. (2019). The impact of credit on the technical efficiency of maize-producing households in Northern Ghana. *Agricultural Finance Review*, *79*(3), 304–322.

Noonari, S., Wagan, H., Memon, I. N., Burirro, R. A., & Bijarani, A. A. (2016). Impact of zarai taraqiati bank LTD (ZTBL) credit on agricultural producitivity in Sindh Pakistan. *Industrial Engineering Letters*, *6*(1), 25–37.

Noonari, S., Wagan, H., Memon, I. N., Burirro, R. A., & Birjarani, A. A. (2016). Impact of zarai taraqiati bank LTD (ZTBL) credit on agricultural producitivity in Sindh Pakistan, *6*(1), 25–37.

Ololade, R. A., & Olagunju, F. I. (2013). Determinants of access to credit among rural farmers in Oyo State, Nigeria. *Global Journal of Science Frontier Research Agriculture and Veterinary Sciences*, *13*(2), 16–22. Retrieved from http://www.afd.fr/webdav/site/afd/shared/PUBLICATIONS/RECHERCHE/Scientifiques/A-savoir/14-VA-A-Savoir.pdf

Paeleman, I., & Vanacker, T. (2015). Less is more , or not ? On the interplay between bundles of slack resources , firm performance and firm survival. *Journal of Management Studies*, *56*(2).

Peachy, S., & Roe, A. . (2006). *Access to finance: What does it mean and how do savings banks foster access. WSBI, World Savings Banks Institute.*

Pradabwong, J., Braziotis, C., Tannock, J. D. T., & Pawar, K. S. (2017). Business process management and supply chain collaboration: effects on performance and competitiveness. *Supply Chain Management: An International Journal*, *22*(2), 107–121. https://doi.org/10.1108/SCM-01-2017-0008

Risilia, D., Pagria, I., Tabaku, I., & Kadiu, E. (2013). The role of microcredit institutions of agriculture sector in Albania. *Journal of Food, Agriculture and Environment*, *11*(1), 353–356.

Roberts, L. C., Otieno, D. J., & Nyikal, R. A. (2017). An analysis of determinants of access to and use of credit by smallholder farmers in Suakoko District, Liberia. *African Journal of Agricultural Research*, *12*(24), 2093–2100. https://doi.org/10.5897/AJAR2017.12386

Solomon, E., Juliana, I., & Antonia, A. I. (2016). Analysis of the effects of microfinance banks loans on the livelihood of small-holder farmers in Delta state , Nigeria. *Economics Affairs*, *61*(3), 381–390. https://doi.org/10.5958/0976-4666.2016.00049.8

Ugwumba, C. O. A., & Omojola, J. T. (2013). Determinants of loan repayment of livestock farmers under Agricultural Credit Guarantee Scheme (ACGS) in Etche Local Government Area of Rivers State, Nigeria. *Agricultural Advances*, *2*(6), 165–172.

Vanacker, T., Collewaert, V., & Zahra, S. A. (2017). Slack resources, firm performance and the institutional context: Evidence from privately held European firms. *Strategic Management Journal*, *38*(6), 1305–1326. https://doi.org/10.1016/S0740-5472(96)90021-5